

**CALIFORNIA STATEWIDE AUTOMATED
WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)**

**Financial Statements
and
Supplemental Information
with
Independent Auditors' Report**

**For the Year Ended
June 30, 2006**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
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Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

Independent Auditors' Report

To the Governing Board
California Statewide Automated Welfare System
Consortium IV

We have audited the accompanying financial statements of the governmental activities, and major fund of the California Statewide Automated Welfare System Consortium IV (A Joint Powers Authority) as of and for the year ended June 30, 2006, which collectively comprises the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State Controller's "Minimum Audit Requirements and Reporting Guidelines for California Special Districts." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and its major fund of the California Statewide Automated Welfare System Consortium IV as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2007 on our consideration of California Statewide Automated Welfare System Consortium IV's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise California Statewide Automated Welfare System Consortium IV's basic financial statements. The Reconciliation of Special Districts Financial Transactions Report with Audited Financial Statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the California Statewide Automated Welfare System Consortium IV. The reconciliation of special districts financial transactions report with audited financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lowell & Spafford, LLP

May 11, 2007

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

Statement of Net Assets

June 30, 2006

ASSETS

Cash in County Treasurer	\$ 751,900
Receivables	
State of California	3,633,644
Consortium member counties	2,460,521
County of San Bernardino - interest	<u>16,064</u>
	6,862,129
Capital assets, net of accumulated depreciation and amortization	<u>123,334,251</u>
Total assets	<u>130,196,380</u>

LIABILITIES

Accounts payable	4,236,655
Due to the State of California - interest	363,294
Due to the County of San Bernardino	15,762
Non-current liabilities	
Due within one year	4,967,594
Due in more than one year	<u>11,560,530</u>
Total liabilities	<u>21,143,835</u>

NET ASSETS

Invested in capital assets	109,052,544
Unrestricted	<u>-</u>
Total net assets	<u>\$ 109,052,544</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

Statement of Activities

For The Year Ended June 30, 2006

Expenses

Service and supplies	\$ 41,106,360
Depreciation and amortization	75,184,320
Interest on debt	<u>2,259,471</u>
Total expenses	118,550,151

Program revenues

Operating grants	41,231,758
Capital grants	<u>5,037,474</u>
Net program revenues (expenses)	(72,280,919)

General Revenues

Local revenues - consortium member counties	1,959,847
Loss on disposal of capital assets	(254,751)
Other income	117,000
Investment income	<u>57,233</u>
	1,879,329

Change in net assets	(70,401,590)
Net assets, beginning of year	<u>179,454,134</u>
Net assets, end of year	<u>\$ 109,052,544</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

Balance Sheet

Governmental Fund

June 30, 2006

Assets

Cash in County Treasurer	\$ 751,900
Receivables	
State of California	3,633,644
Consortium member counties	214,104
County of San Bernardino - interest	<u>16,064</u>
Total assets	<u>\$ 4,615,712</u>

Liabilities and fund balance

Liabilities

Accounts payable	\$ 4,236,655
Due to the State of California	363,295
Due to the County of San Bernardino	<u>15,762</u>
Total liabilities	<u>4,615,712</u>

Fund balance

Unreserved - undesignated (deficit)	<u>-</u>
Total liabilities and fund balance	<u>\$ 4,615,712</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balance	\$ -
Long-term receivables used in governmental activities are not financial resources and, therefore are not reported in the funds.	2,246,417
Capital assets, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	123,334,251
Long-term liabilities, including capital leases, and advance due the State of California are not due and payable in the current period and therefore are not reported in the funds.	<u>(16,528,124)</u>
Net assets of governmental activities	<u>\$ 109,052,544</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

**Statement of Revenues, Expenditures,
and Changes in Fund Balance - Governmental Fund**

For the Year Ended June 30, 2006

Revenues

Intergovernmental	\$ 48,467,092
Other income	117,000
Investment income	57,233
	<u>48,641,325</u>

Expenditures

Current:	
Service and supplies	41,106,360
Capital outlay	713,038
Debt service:	
Principal retirement	4,657,943
Interest	2,259,471
	<u>48,736,812</u>
Excess of revenues over (under) expenditures	(95,487)

Other Financing Sources (Uses)

Capital lease agreements	<u>333,500</u>
Excess of Revenues and Other Sources	
Over (Under) Expenditures and Other Uses	238,013

Fund balance

Balance (deficit), beginning of year	<u>(238,013)</u>
Balance (deficit), end of year	<u>-</u>

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance	\$ 238,013
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Local revenues from consortium member counties were not available and therefore not considered revenues in the prior period. However, they are revenue in the current period. (238,013)

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation or amortization expense. This is the amount by which capital outlay exceeds depreciation, amortization and loss on disposal of capital assets. (74,726,033)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 4,324,443

Change in net assets of governmental activities	<u>\$ (70,401,590)</u>
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The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

**Statement of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual - Governmental Fund**

For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	\$ 48,119,439	\$ 45,465,740	\$ 47,068,599	\$ 1,602,859
Investment income	<u>-</u>	<u>-</u>	<u>71,738</u>	<u>71,738</u>
	<u>48,119,439</u>	<u>45,465,740</u>	<u>47,140,337</u>	<u>1,674,597</u>
Expenditures				
Service and supplies	33,190,837	37,989,459	39,202,797	(1,213,338)
Capital outlay	7,189,399	1,068,883	379,539	689,344
Debt service, principal and interest	<u>7,739,203</u>	<u>6,407,398</u>	<u>6,917,414</u>	<u>(510,016)</u>
	<u>48,119,439</u>	<u>45,465,740</u>	<u>46,499,750</u>	<u>(1,034,010)</u>
Excess of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 640,587</u>	<u>\$ 640,587</u>

The accompanying notes are an integral part of these financial statements.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Reporting Entity

The California Statewide Automated Welfare System Consortium IV (the Authority) was formed in 1998 under the California Government Code Section 6500 et. seq. The Authority includes the counties of San Bernardino, Riverside, Merced and Stanislaus, and was created for the purpose of the design, development, implementation, and on-going operation and maintenance of an automated welfare system to be used by each of the four counties. The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practice within California Joint Powers Authorities. The Authority accounts for its financial transactions in accordance with the policies and procedures included in the "Minimum Audit Requirements and Reporting Guidelines for California Special Districts" issued by the State Controller's Office, Division of Local Government Fiscal Affairs.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Generally accepted accounting principles require that these financial statements present the accounts of the Authority and any of its component units. Component units are legally separate entities for which the Authority is considered to be financially accountable or otherwise has a relationship, which is such that the exclusion of the entity would cause the financial statements to be misleading. Blended component units are considered, in substance, part of the Authority's operations, so the accounts of these entities are to be combined with the data of the Authority. Component units, which do not meet these requirements, are reported in the financial statements as discrete units to emphasize their separate legal status. However, the Authority has determined that it is not financially accountable for, nor has any other relationship with, any other organization, which would require its inclusion in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately, compared to *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority currently has no business-type activities.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues include* 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period. The Authority considers all revenues available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Expenditures are recorded when a liability is incurred, as under the accrual basis of accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Authority reports the following major governmental fund:

General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

By state law, the Authority’s Governing Board must approve a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The Authority’s Governing Board satisfied these requirements. Amendments were made to the original budget adopted during the year due to changes in funding at the state level.

Formal budgetary integration was employed as a management control device during the year for the budgeted fund. The Authority employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Cash in County Treasurer

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes mandate the Authority maintain substantially all of its cash in the San Bernardino County Treasury. The County's investment pool operates in accordance with appropriate state laws and regulations. The fair value of the Authority's position in the pool is not the same as the value of the pooled shares. The method used to determine the value of participants' equity withdrawn is based on the book value, amortized cost plus accrued interest, multiplied by the Authority's percentage at the date of such withdrawal.

The County Treasurer's investments, including U.S. Treasury and Agency securities, are carried at fair value based on current market prices. Commercial paper is carried at amortized cost. Investments in bankers' acceptances and nonparticipating guaranteed investment contracts are carried at cost. Participating guaranteed investment contracts are carried at fair value based on net realizable value. Mutual funds are carried at fair value based on the funds' share price. Local Agency Obligations are carried at fair value based on the value of each participating dollar.

Capital Assets

Capital assets, which include computers and software, are reported in the government-wide financial statements. The Authority defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the estimated useful life of 2-5 years for computers and 3 years for software.

2. Cash in County Treasurer

Cash in County Treasurer is considered an investment in an external investment pool. These funds are reported at market value as determined by quoted market prices in the financial statements of the Authority.

Credit Risk – Investments

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

2. Cash in County Treasurer (Continued)

Credit Risk – Investments (Continued)

The County Treasurer's investments consist of 60.1% federal agencies, 11.4% of commercial paper, 19.1% of certificates of deposit, 5.4% U.S. Treasuries, 3.0% of repurchase agreements and 1.0% of money market funds. The credit ratings for these investments range from AAA, A-1+ and A-1 in accordance with state law and County investment policies. The carrying value and market value as of June 30, 2006 for the Authority was \$769,660 and \$751,900, respectively.

Interest Rate Risk – Investments

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of the ways the County of San Bernardino Treasurer manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so a portion of its portfolio is maturing or coming close to maturity to ensure the cash flow and liquidity of operations. The weighted average maturity of the County of San Bernardino Treasurer's investments is generally 1.5 years or less.

3. Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

Receivable – consortium member counties	\$ <u>2,246,417</u>
Capital assets	\$ 242,589,505
Accumulated depreciation	<u>(119,255,254)</u>
	\$ <u>123,334,251</u>
Advance – State of California	\$ 2,246,417
Capital leases payable	<u>14,281,707</u>
	\$ <u>16,528,124</u>

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

3. Reconciliation of Government-wide and Fund Financial Statements (Continued)

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Local revenue – consortium member counties	
Maintenance and operations percentage share	\$ <u>(238,013)</u>
Capital outlay	\$ 713,038
Depreciation and amortization	(75,184,320)
Loss on disposal equipment	<u>(254,751)</u>
	<u>\$ (74,726,033)</u>
Capital leases entered into	\$ (333,500)
Principle retirement of capital leases	<u>4,657,943</u>
	<u>\$ 4,324,443</u>

4. Receivables

Receivables consist of the following as of June 30, 2006:

State of California – Claims receivable	\$ 3,633,644
Consortium Member Counties:	
Advances due the State of California	2,246,417
Receivables from consortium members for percentage share of	
Maintenance & operations:	214,104
San Bernardino County – interest	<u>16,064</u>
	<u>\$ 6,110,229</u>

5. Capital Assets

The following is a summary of the changes in capital assets during the year:

	Balance 7-1-05	Additions	Disposals/ Transfers	Balance 6-30-06
Computer hardware	\$ 3,550,545	\$ 57,264	\$ -	\$ 3,607,809
Computer hardware under capital				
Leases	24,365,207	333,500	(546,008)	24,152,699
Software	214,506,722	322,275		214,828,997
Less:				
Accumulated depreciation	(37,237,576)	(70,497,684)		(107,735,260)
Accumulated amortization of capital leases	<u>(7,124,615)</u>	<u>(4,686,636)</u>	<u>291,257</u>	<u>(11,519,994)</u>
	<u>\$ 198,060,283</u>	<u>\$ (74,471,281)</u>	<u>\$ (254,751)</u>	<u>\$ 123,334,251</u>

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

5. Capital Assets (Continued)

Depreciation expense amounted to \$70,497,684 for the year ended June 30, 2006.

6. Non-current Liabilities

Capital lease obligations

The Authority has entered into capital lease obligations for computer hardware, included under capital assets with an original cost of \$24,152,699. The following is a schedule of the future minimum lease payments under these capital leases as of June 30, 2006:

<u>Years ended June 30,</u>	
2007	\$ 6,581,454
2008	5,895,554
2009	3,978,846
2010	659,804
2011	<u>28,843</u>
Total minimum obligations	17,144,501
Less amounts representing interest	<u>2,862,794</u>
Present value of minimum obligations	<u>\$14,281,707</u>

Amortization expense included with depreciation expense on the statement of activities amounted to \$4,686,636 for year ended June 30, 2006.

Advances – State of California

The consortium member counties collectively are required to pay 5% of the application development costs of the Statewide Automated Welfare System. Since construction began, the State of California has funded/advanced these costs. However, upon implementation of the system each consortium member will be required to repay the State for these advances. The determination of each consortium member's share is proportionate to the member's individual caseload compared to the total consortium caseload upon execution of the original contract for application development.

Consortium members must begin repayment twelve months after implementation of the program and have up to four years to repay all amounts due to the State of California.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

6. Non-current Liabilities (Continued)

As of June 30, 2006 amounts due the State of California are as follows:

<u>For the Years Ended June 30,</u>	<u>Advances</u>
2001	\$ 92,259
2002	1,216,309
2003	499,748
2004	310,899
2005	<u>127,202</u>
	<u>\$ 2,246,417</u>

The following is a summary of the changes in non-current liabilities during the year:

	<u>Capital Lease Obligations</u>	<u>Advance State of California</u>	<u>Total</u>
Balance at July 1, 2005	\$ 18,606,149	\$ 2,246,417	\$ 20,852,566
Additions	333,500		333,500
Retirements	<u>(4,657,942)</u>	<u>-</u>	<u>(4,657,942)</u>
Balance at June 30, 2006	<u>\$ 14,281,707</u>	<u>\$ 2,246,417</u>	<u>\$ 16,528,124</u>
Due within one year	\$ 4,967,594	\$ -	\$ 4,967,594
Due in more than one year	<u>9,314,113</u>	<u>2,246,417</u>	<u>11,560,530</u>
Total	<u>\$ 14,281,707</u>	<u>\$ 2,246,417</u>	<u>\$ 16,528,124</u>

7. Related Party Transactions

The County of San Bernardino (the County) provides controllership responsibilities for the Authority at a specified rate per transaction. Total amounts paid and due the County for these services amounted to \$0 and \$15,762, respectively at June 30, 2006.

8. Budget/GAAP Reconciliation

The budget as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is reported using the cash basis method of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). This method does not recognize receivables, payables, capital lease payments as a reduction of debt service and interest expense, or the capitalization of certain costs related to software development. A reconciliation of the Budget Basis to the Statement of Revenues, Expenditures and Changes in Fund Balance is shown on the following page:

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

8. Budget/GAAP Reconciliation (Continued)

	<u>Budget Basis</u>	<u>Actual</u>	<u>Change</u>
<u>Intergovernmental revenues</u>			
Conversion from cash basis to accrual basis	\$ 47,068,599	\$ 48,325,153	\$ 1,256,554
<u>Investment income</u>			
Conversion from cash basis to accrual basis and fair market value adjustment	71,738	57,232	(14,506)
<u>Service and supplies</u>			
Conversion from cash basis to accrual basis and reclassification to capital expenditures and debt service	(39,202,797)	(40,847,420)	(1,644,623)
<u>Capital outlay</u>	(379,539)	(713,038)	(333,499)
<u>Debt service</u>			
Principal	(4,657,943)	(4,657,943)	-
Interest	(2,259,471)	(2,259,471)	-
Proceeds from advance – State of California	-	-	-
Capital lease agreements	-	333,500	333,500
Net change budget basis to GAAP basis	<u>\$ 640,587</u>	<u>\$ 238,013</u>	<u>\$ (402,574)</u>

9. Commitments & Contingencies

The Authority contracts with a prime contractor and a quality assurance contractor for a majority of its expenditures related to the maintenance and operations of the new welfare automated integrated system. The Authority disburses funds to the contractors based on monthly expenditure and performance reports received from the contractors. Payments under the contract are contingent upon approval and acceptance by the Authority and appropriate state and federal agencies.

In addition, payments under the contract are contingent upon the availability of county, state and federal funding. If funding to make payments under the terms of the contract is not forthcoming from the state legislature or the federal government for the project, or is not allocated or allotted to the Authority by the State Department of Finance for payment in the current or any future fiscal period, then the obligations of the Authority to make payments after the effective date of such non-allocation or non-funding will cease and terminate. The total future commitment under the contract is \$412,259,446 that is allocated for project deliverables, management of the project, maintenance and operations, quality assurance, equipment and third party software, and facilities leasing.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Program Name	Federal Catalog Number	Program Expenditures
<u>Passed through the State of California</u>		
U.S. Department of Health and Human Services		
Temporary Assistance to Needy Families	93.558	\$ 10,464,987
KinGAP	93.558	81,432
Foster Care Title IV-E	93.658	428,111
Medical Assistance Program	93.778	<u>21,540,318</u>
Total Department of Health and Human Services		<u>32,514,848</u>
 U.S. Department of Agriculture		
Food Stamp Administration	10.561	<u>10,827,742</u>
Total Department of Agriculture		<u>10,827,742</u>
Total federal programs		<u>\$ 43,342,590</u>

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133,
Audits of States, Local Governments, and Non Profit Organizations.

Reconciliation of the Schedule of Expenditures of Federal Awards to intergovernmental revenues on the Statement
of Revenues, Expenditures and Changes in Fund Balance:

Total federal programs	\$ 43,342,590
State and local grants	<u>5,124,502</u>
Intergovernmental revenues	<u>\$ 48,467,092</u>

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

**Reconciliation of Special Districts Financial Transactions Report
with Audited Financial Statements**

June 30, 2006

	<u>General and Special Revenue Funds</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
June 30, 2006, per Special Districts Financial Transactions Report governmental fund type fund balance	\$ 893,839	\$ 243,783,534	\$ 14,400,748
To record reduction in receivable from State of California	(683,353)		
To record reduction in other assets	(141,939)		
To record reduction in interest receivable	(52,786)		
To record additional payables	(15,761)		
To reclassify current year fixed asset additions		(1,194,029)	
To report prior year advances from State of California	<u>-</u>	<u>-</u>	<u>2,127,376</u>
June 30, 2006, per audited financial statements	<u>\$ -</u>	<u>\$ 242,589,505</u>	<u>\$ 16,528,124</u>



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Governing Board of Directors
California Statewide Automated Welfare System Consortium IV

We have audited the financial statements of the California Statewide Automated Welfare System Consortium IV as of and for the year ended June 30, 2006 and have issued our report thereon dated May 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2006-1.

This report is intended solely for the information and use of the governing board, management, and federal awarding and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Powell & Spafford, LLP

May 11, 2007



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

**Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133**

To the Board of Directors
California Statewide Automated Welfare System Consortium IV

Compliance

We have audited the compliance of the California Statewide Automated Welfare System Consortium IV with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the Council's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in item 2006-1 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding cash management that are applicable to its Department of Health and Human Services major programs. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, California Statewide Automated Welfare System Consortium IV complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of the California Statewide Automated Welfare System Consortium IV is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect

on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the governing board, management, and federal awarding and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lowell & Spafford, LLP". The signature is written in dark ink and is positioned to the right of the date.

May 11, 2007

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

Findings and Questioned Costs

For the Year Ended June 30, 2006

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: An unqualified opinion.

Internal control over financial reporting:

Material weaknesses identified? ☐ yes ☒ no

Reportable conditions identified that are not considered to be material weaknesses? ☐ yes ☒ no

Noncompliance material to financial statements noted? ☒ yes ☐ no

Federal Awards

Internal control over major programs:

Material weaknesses identified? ☐ yes ☒ no

Reportable conditions identified that are not considered to be material weaknesses? ☐ yes ☒ no

Type of auditors' compliance report issued? Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of Circular A-133? ☒ yes ☐ no

Identification of major program:

Identifying Number

CFDA #93.558

CFDA #93.558

CFDA #93.778

CFDA #10.561

Name of Federal Program

Department of Health and Human Services

Temporary Assistance to Needy Families

KinGAP

Medi-Cal

Department of Agriculture

Food Stamps

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,300,278

Auditee qualified as low-risk auditee?

☐ yes ☒ no

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

Findings and Questioned Costs

For the Year Ended June 30, 2006

Section II – Financial Statement Findings

No matters are being reported.

Section III – Federal Award Findings and Questioned Costs

Questioned Costs

U.S. Department of Health and Human Services

Temporary Assistance to Needy Families and KinGap, CFDA No. 93.558,
Medi-Cal, CFDA No. 93.778

U.S. Department of Agriculture

Food Stamps, CFDA No. 10.561

2006-1 – Cash Management

Condition and Criteria: The Authority has not submitted interest earned on excess funds to the pass-through entity, State of California, in accordance with OMB Circular A-102. Moreover, delays by the State of California in developing a process to return these funds have compounded the issue.

Effect: Time elapsing between the advances from the State of California and claims submitted to the State of California resulted in interest earnings and the delay by the State of California has increased the amount due to the state.

\$363,295

Cause: Temporary cancellation of invoices after requesting funds from the state of California resulted in inadvertent overpayment in prior years, which generated interest earnings from the County of San Bernardino. The Authority's current management has made a diligent effort to return the funds without success.

Population and Items Tested: Total interest reported on the Authority's financial statements.

Recommendation: We recommend that the Authority continue to request guidance from the State of California.

Authority's Response: The Authority will continue to monitor interest earned on excess funds, and will submit these funds to the State of California as soon as allowed.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

Findings and Questioned Costs

For the Year Ended June 30, 2006

Status of Prior Findings and Questioned Costs

U.S. Department of Health and Human Services

2005-1 – Management of Financial Reporting

Finding: Improvements were made to designate individuals and departments responsible for providing and maintaining documentation necessary to complete required financial reporting. However, the Authority continued to file required regulatory reports and audited financial statements late.

Recommendation: We recommend that the Authority establish policies and procedures to ensure the proper maintenance of records necessary to complete required regulatory reports and the timely completion of the audit.

Current Status: Implemented

2005-2 – Cash Management

Finding: The Authority is not promptly submitting interest earned on excess fund to the pass-through entity (State of California) or the federal agency in accordance with OMB Circular A-102.

Recommendation: We recommend that the Authority establish policies and procedures to conform to the requirements of OMB Circular A-102.

Current Status: See current finding 2006-1